

**BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN**

**Application of Milwaukee Water Works, Milwaukee
County, Wisconsin, for Authority to Increase Water
Rates**

3720-WR-107

DIRECT TESTIMONY OF KATHLEEN BUTZLAFF

April 23, 2010

1 **Q. State your name, occupation, and business address.**

2 A. My name is Kathleen Butzlaff. I am an Audit Manager at the PSC in the Division of
3 Water, Compliance and Consumer Affairs (DWCCA). In 1997, I also became Program
4 Director for the Simplified Rate Case (SRC) process. My business address is 610 N.
5 Whitney Way, P.O. Box 7854, Madison, Wisconsin, 53707-7854.

6 **Q. State your educational background.**

7 A. I am a 1989 graduate of UW-Madison with a Bachelor of Business Administration degree
8 and a major in accounting. I have been employed by the Commission since 1990. In
9 1991, I attended the Utility Rate School sponsored by the National Association of
10 Regulatory Utility Commissioners (NARUC) Committee on Water.

11 **Q. State your work responsibilities.**

12 A. As an Audit Manager with the Commission, I prepare revenue requirements for water
13 utilities and combined water and sewer utilities in rate cases. I also present testimony to
14 provide the Commission with adequate information for making decisions in rate cases.

15 **Q. What is the purpose of your testimony in this proceeding?**

16 A. The purpose of my testimony is to present and explain my revenue requirement proposal.

1 **Q. I show you what has been marked for identification as Exhibit No. 12.1 (PSC REF#:**
2 **129340). Was this exhibit prepared by you or under your direction?**

3 A. Yes it was.

4 **Q. Will you please explain Schedule 1 of your exhibit?**

5 A. Schedule 1 presents the estimated 2010 operating income statement, net investment rate
6 base and return on rate base as estimated by the Milwaukee Water Works (MWW),
7 together with my proposed adjustments to arrive at the estimated 2010 income statement,
8 net investment rate base and return on rate base. I estimate total 2010 operating revenues
9 to be \$70,449,726.

10 **Q. Please explain Schedule 2 of your exhibit.**

11 A. Schedule 2 sets forth the revenue increase required to produce a 5.21 percent return on
12 net investment rate base for the test year.

13 I estimate the capital structure for MWW employed in providing public utility
14 service for the test year to be 90.33 percent municipal equity and 9.67 percent long-term
15 debt. The estimated cost of debt is 4.32 percent. The applicant requested a return on net
16 investment rate base of 5.00 percent for retail water sales and 6.50 percent for wholesale
17 water sales. The retail rate of return of 5.00 percent will provide a return on municipal
18 equity of 5.07 percent on municipal earning equity and adequate times interest coverage.
19 The wholesale rate of return on rate base of 6.50 percent will provide a 6.73 percent
20 return on municipal equity and adequate times interest coverage. This results in a
21 composite return on net investment rate base of 5.21 percent. A return on rate base of
22 5.21 percent will provide a 5.30 percent return on municipal earning equity and adequate
23 times interest coverage.

1 As indicated in this schedule, the revenue increase required is \$18,801,804, or 28
2 percent of current revenues. The required increase in operating revenues will result in
3 estimated total operating revenues of \$89,251,530 and a net operating income of
4 \$15,421,754.

5 **Q. Are the operating revenues and expenses as shown in Schedule 2 to be reasonable**
6 **estimates of such revenues and expenses?**

7 A. Yes.

8 **Q. Please explain Schedule 4 of your exhibit.**

9 A. Schedule 4 presents my explanations of adjustments that are shown in Schedule 1.

10 **Q. Please explain these adjustments.**

11 A. Adjustment 1 reflects a decrease of \$414,185 in the utility's estimated Power Purchased
12 for Pumping expense. My estimate is based on the 2010 estimated sales of water, a four
13 year average ratio of sales to pumpage, a two year average ratio of gallons pumped per
14 kWH, and estimated cost per kWH at the 2008 level increased 3 percent for both 2009
15 and 2010.

16 Adjustment 2 reflects an increase of \$407,000 in the utility's estimated
17 Maintenance of Distribution Reservoirs and Standpipes expense. The \$407,000 is the
18 estimated cost to paint six reservoirs normalized over 15 years.

19 Adjustment 3 reflects an increase of \$440,819 in the utility's estimated Outside
20 Services Employed expense based on a detailed review of this account. The adjustment
21 is primarily due to an estimated \$510,000 for charges from the sewer department, which
22 had been overlooked and unbilled until 2008.

1 Adjustment 4 consists of two adjustments which increase the utility's estimated
2 Net Investment Rate Base by \$3,085,316. First, Plant In Service is decreased \$213,000
3 by reclassifying the meter replacement program from routine to major. Second,
4 Accumulated Provision for Deprecation was adjusted \$3,298,316 to include 2009
5 retirements of meters and by the reclassification of 2010 meter retirements from routine
6 to major.

7 **Q. Please explain Schedule 5 of your exhibit.**

8 A. Schedule 5 is a list of depreciation rates that I used in determining the depreciation
9 accruals and expense for the test year 2010. When the order is issued in this docket,
10 these rates will be certified for use by MWW effective January 1, 2010.

11 **Q. Does this complete your direct testimony in this proceeding?**

12 A. Yes, it does.

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14 KAB:w:water\butzlk\rate case exhibits\Milwaukee 3720-WR-107 direct testimony
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